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SUBJECT: ENERGY TAX, GOOD IDEA SEARCHING FOR A GOOD PLAN

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11. SUMMARY. Concern over rising energy use and carbon dioxide emissions have led Taiwan authorities to devise new strategies for increased energy efficiency and conservation. A proposed new tax targeting hydrocarbon fuels was sent to the Executive Yuan in September. It targets eight fuel types, with the highest tax on gasoline. With elections looming, chances of the proposal becoming law soon are slim but the issue is likely to reemerge in 2007. END SUMMARY

#### INCREASING ENERGY USE AND CO2 EMISSIONS

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12. Taiwan authorities have long sought an energy policy that encourages energy conservation, keeps a lid on CO2 emissions, but does not stifle industrial growth. At the Conference on Sustainable Economic Development in July, authorities proposed an energy tax to promote energy efficiency and conservation. Low fuel costs have contributed to low energy efficiency in Taiwan. In September the Ministry of Finance designed an energy tax proposal to promote energy conservation and efficiency. The tax would be imposed in rising annual increments on gasoline, diesel, fuel oil, natural gas and liquefied petroleum gas, coal, aviation fuel and kerosene until 2016, after which the tax rate would remain fixed. The proposed tax for gasoline is NT\$1.00/liter/year (about US\$.03). The energy tax proposal is being reviewed by the Executive Yuan for subsequent transmittal to the Legislative Yuan.

#### WILL A NON-COMPREHENSIVE ENERGY TAX MEAN ANYTHING?

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13. Taiwan agencies currently impose their own vehicle taxes in an effort to capture the costs of pollution. The Ministry of Transportation and Communications (MOTC) collects a vehicle fuel surcharge while Taiwan's Environmental Protection Agency (TEPA) collects both air and ground pollution surcharges. Critics of the MOF energy tax proposal complain it does not include the surcharge now collected by the MOTC and TEPA. Without these, they say producers will not be paying for the pollution they generate. Opponents of the tax also say that its implementation will cost households NT\$3,000 per month in additional expenses. MOEA Bureau of Energy analysts believe, however, that the gradual implementation of this tax would balance a planned cancellation of part of the commodity tax and vehicle fuel surcharge. Both EPA and MOT object to a comprehensive tax scheme since they will stand to lose control over the revenue currently collected by those agencies under the surcharges. Dr. Liang Chi-Yuan of Academia Sinica notes that the energy

tax will affect both consumers and producers of fuels, since fuel production requires energy.

#### GREENHOUSE GASES AND ENERGY TAX

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¶4. Taiwan ranks 22nd in the world for CO2 emissions and contributes about one percent of global carbon emissions. Its energy efficiency figures for 2004 lag behind Japan and the EU, with every kilo of oil generating \$4.55 in value versus \$6.44 for Japan and \$7.11 for the UK and \$6.21 for Germany. Although not part of the Kyoto Protocol because it is not a UN member, Taiwan has pledged to reduce CO2 emissions. In June 2005, MOEA announced plans to cut carbon dioxide emissions. Currently there is an air pollution surcharge that is levied on industry. However of all energy sources, coal, the most polluting, has the biggest potential for growth. The Bureau of Energy estimates that coal use will increase from the current 34 percent to almost 50 percent by 2025. In addition, Taiwan plans to build a large new steel plant, a new naptha cracker, and new coal fired power plants.

#### COMMENT

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¶5. While experts debate the pros and cons of the energy tax, legislators will sit this one out until after the elections. Taiwan still enjoys relatively low energy prices in East Asia. Academics and policy makers believe an energy tax can be useful to encourage conservation, but finding the correct formula for implementation and ensuring that the economy is not adversely affected will be a big challenge. END COMMENT  
YOUNG